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CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****WEEKLY REVIEW****LAOS**

The military situation in central Laos remains critical. New defensive positions hastily prepared about 11 miles outside Thakhek are manned only by company-size units, although they may be strengthened somewhat by reinforcements now arriving from the Savannakhet and Pak Sane areas. Some two thousand civilian refugees have crossed into Thai territory, indicating the general fear and low morale in the Thakhek area.

Enemy forces now control a sizable area of central Laos encompassed by Route 8 from the North Vietnamese border to Kam Keut, the road south from Lak Sao through Nhommarat and Mahaxay, and Route 12 running east to North Vietnam. Contact with enemy forces has been broken off in the Thakhek area.

In the Ban Pha area about 15 miles southwest of Xieng Khouang town, Kong Le - Pathet Lao forces continue mopping up operations against the Meo guerrilla bases. If they effectively disperse the guerrilla forces occupying several ridges in this area, they could move southward against Pak Sane without fear of harassment from the rear.

Fragmentary reports indicate a developing threat to Muong Sai, a key government post about 60 miles north of Luang Prabang. Some Pathet Lao elements have moved into position about six miles north of Muong Sai, while others are reported moving southward from Phong Saly

with the mission of taking the post. The fall of Muong Sai would endanger the royal capital itself.

In villages surrounding Vientiane, the Pathet Lao appears to be increasing its influence and its propaganda agents continue active. Communist guerrilla squads reportedly have been organized in the area to prepare ambushes against government patrols.

A recent attack on a government outpost in southernmost Laos may foreshadow increased pressure in the South to bolster the Pathet Lao's claim to be a nationwide force in any further negotiations.

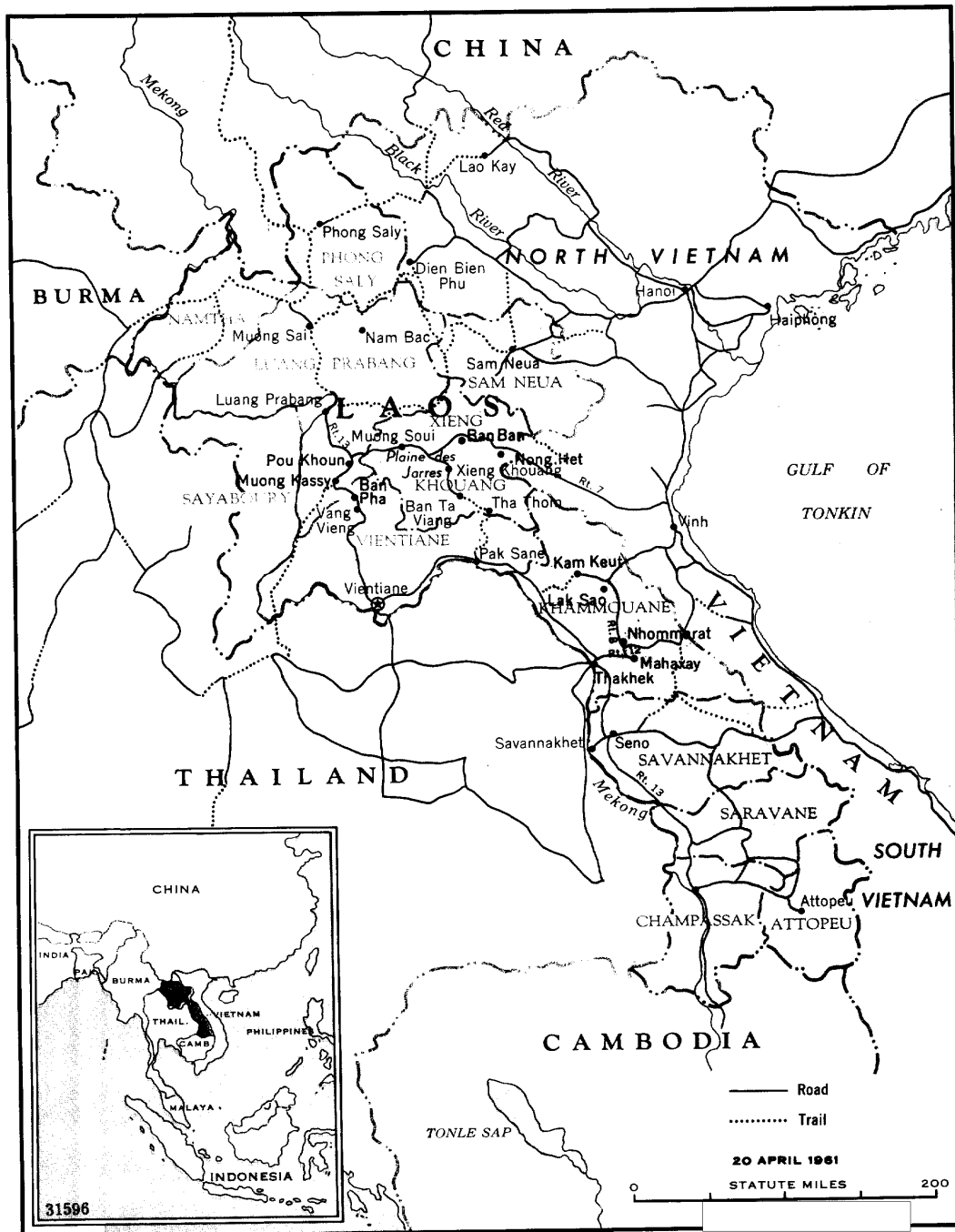
Political activity in Vientiane has been overshadowed by the deteriorating military situation and the uncertainty of developments at the international level.

Moscow's aim in the current talks on Laos with the UK is to maneuver the West into agreeing to a definite date for convening the international conference before the Western position on cease-fire verification can be satisfied. The USSR's aide-memoire of 16 April, which suggested that the conference convene on 5 May at the foreign ministers' level, agreed to call on the opposing sides in Laos to cease fire before the conference actually meets but did not agree on fixing a date to begin cease-fire negotiations as proposed by the UK.

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The Soviet Union had informed the British on 5 April that it considered the proposals on Laos inseparable and intimated that agreement should be reached on all the proposals, including publicly fixing a conference date, at the same time. The USSR would consider agreement on this point an important diplomatic victory which would place the West on the defensive at the outset of negotiations on Laos.

Asian Communist propaganda seems to have been marking time on Laos for several days. Before the 16 April Soviet aide-memoire, Peiping and Hanoi had broadcast statements attributed to Pathet Lao leader Prince Souphannouvong insisting that neither Phoumi nor Boun Oum be included in any coalition government for Laos. According to Peiping, Souphannouvong said he was willing to enter a coalition with the "legal government" and could agree to admission of "rebel elements who submitted," but he specifically excluded Phoumi and Boun Oum as "hopless rebels and traitors."

There are some indications that the bloc may attempt to resurrect the question of Vietnamese reunification at an international conference on Laos.

Communist propaganda attacks on South Vietnam have linked it with Laos under the general heading of "threat to peace in south-east Asia."

The 1954 Geneva Agreement alluded to reunification of Vietnam through general elections but did not specify when or how these elections would be held. These details were spelled out in a separate declaration stipulating that general elections should be held throughout Vietnam in July 1956 under ICC supervision. North Vietnam signed both agreement and declaration and has endorsed the elections--it has a population majority over the South. South Vietnam agreed to honor the spirit of the agreement and accepted the ICC, but signed neither document and has not accepted the election formula.

North Vietnam has leveled a continuous barrage of charges against Saigon for "violating the Geneva Agreement." Under this umbrella, South Vietnam is accused of "suppressing a patriotic movement" when it seeks to halt Communist guerrilla depredations, of being linked to SEATO, of importing arms to prepare a "base for aggression," and of intervention in Laos.

Recently Hanoi has complained to the Geneva co-chairmen, Great Britain, and the USSR, that the ICC is not properly supervising the Geneva Agreements in the South. These charges could be intended to prepare appropriate background material for a Communist move to expand a conference on Laos into an attack on the US - South Vietnamese alliance--an attack shrouded in the legalities of the Geneva Agreement and the reunification issue.

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Anti-Castro fighters on 19 April virtually ended their organized resistance in the beachhead area as the Castro regime, under strong air cover, deployed its tanks and artillery against them. The survivors dispersed into the countryside later the same day. The extent of the casualties and damages suffered by the Castro government remains unclear.

No general internal uprising against Castro materialized, and the tightened police controls and systematic terrorism against anti-Castro elements have for the present significantly strengthened the regime's domestic position. The number of announced arrests and executions of "counterrevolutionaries" markedly increased following 17 April.

On 18 April the Cuban national radio network announced the arrest of the Roman Catholic auxiliary bishop of Havana Province, long one of the church's outspoken critics of the Castro regime. Also announced the same day were the arrests of a number of other priests and the capture of anti-Castro leader Humberto Sori Marin, Castro's first minister of agriculture, who reportedly was wounded while trying to evade arrest. Sori Marin was one of those executed by the government on 19 April.

Free World Reactions

The Communist parties in other Latin American countries

engaged in a general effort in coordination with pro-Castro groups--and in some cases with Cuban Embassy personnel--to exert as much pressure on the governments as possible by means of public demonstrations and work stoppages in support of Castro. Most of the anti-US demonstrations were effectively controlled by local security forces. Some pro-Castro demonstrations were still continuing on 20 April.

The Argentine public reaction generally accented past contrasts between the increasingly frequent criticism of Castro in the responsible press and the anti-US demonstrations by Argentine youths, who have been extensively cultivated by Cuban and Communist propaganda.

The Brazilian Government stated on 17 April its "most profound apprehension concerning developments in Cuba" and reiterated its adherence to the principal of self-determination. Communist-influenced peasant leagues in Recife and students in Rio de Janeiro stage non-violent protest demonstrations.

Mexico adopted a strict hands-off policy in regard to the conflict in Cuba, while it observed in an official statement that Cuban "aspirations of economic and social improvement have found a highly favorable echo in the conscience of the peoples of America." Ex-President Lazaro Cardenas was not allowed to fly to Cuba to make his much-heralded stand of

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solidarity with Castro, and the most important Mexican newspapers--all responsive to government policy--said that Castro's sellout of the Cuban revolution to Communism was responsible for the outbreak.

Editorial comment on the Cuban fighting was generally sympathetic to the anti-Castro cause in many Latin American newspapers, including the majority of those of Venezuela, Colombia, Panama, El Salvador, and Costa Rica. Anti-Castro groups in Guatemala and Peru called on their governments to recognize the "provisional Cuban government of Miro Cardona, and Costa Rican student groups demanded that relations with Castro's Cuba be broken.

Reaction to Cuban developments among the Afro-Asian countries was marked by several protest demonstrations against "American imperialism," such as those of 17 and 18 April in Tokyo and Cairo.

Sino-Soviet Bloc Reaction

Moscow's reaction to the landings in Cuba produced the strongest and most direct criticism of over-all US policy since 20 January. In his let-

ter to President Kennedy on 18 April, Khrushchev accused the US of having armed and equipped the rebel forces and charged that the aircraft which bombed Cuban targets on 16 April "belong to the USA." A Soviet government statement, also issued on 18 April, denounced Washington for "pursuing the reactionary imperialist policy of Dulles and Eisenhower which has been condemned by the nations."

Khrushchev's letter, moreover, contained a thinly veiled charge of bad faith on the part of the US. After recalling the recent exchanges between American and Soviet officials concerning the "mutual wish of the parties to exert joint efforts directed toward the improvement of relations between our countries and the prevention of a danger of war," he asked, "how are we to understand what is really being done by the US now that the attack on Cuba has become a fact?"

Although the USSR moved vigorously to mobilize world opinion against the US and generate alarm over events in Cuba, Soviet pronouncements carefully avoided any commitments to specific counteraction. Khrushchev's letter fell far short of his "rocket threat" of last July. No mention was made of that statement or subsequent warnings, and the only allusion was a reference to the "military techniques" which make it possible for any "so-called, small war" to produce a chain reaction.

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Soviet media have reported protest meetings throughout the USSR. Crowds of students and workers ranging in size up to several thousand demonstrated in front of the US Embassy in Moscow on 18 April. Police and security forces, however, maintained close control over the demonstrators, restricting the size of the crowd by forcing delegations to move on before permitting new groups to arrive. The embassy commented that the demonstration appeared to have more real political content and posed more real concern for the government than the demonstration against the US landing in Lebanon in 1958, which was handled by a relatively small security force.

Demonstrations were also staged in all the European satellite capitals.

Peiping's propaganda coverage of the Cuban situation has been massive--the regime is staging large protest rallies in Chinese cities and devoting up to 75 percent of its broadcasts to the subject. It is using the Cuban crisis to underscore a favorite thesis, that the Kennedy administration is "even more aggressive" than the Eisenhower administration. An official Chinese Communist statement on 20 April said the Cuban attack exposes the "hypocritical US peace talks" in regard to Laos.

The statement also linked the Cuban situation to tensions in the Taiwan Strait, citing US "occupation" of Taiwan and other cases of "US aggression" in the area, and said the Chinese stand "on the same battle front" as the Cuban people. The statement then pledged "all necessary measures in every field" to support Cuba, but

did not specify any reaction Peiping might take.

At the UN

Among UN General Assembly members, particularly those of the Afro-Asian bloc, the rebel landing caused a sharp deterioration in support for the US on Cuba's charges of US "aggressive actions" pending since last September and reiterated several times by Foreign Minister Roa from 15 April on. A member of the delegation of the Central African Republic probably summed up the generally prevailing mood when he told the US delegation that his government was following charges and countercharges closely, "waiting to see which side proved to be right." The Senegalese delegate commented that even moral approval of the attacking group in Cuba "threatened Cuba's independence and suggested condonation of nonofficial aid."

The bitter debate is expected to continue for some time. Four draft resolutions have been presented--two by the Soviet bloc and one by Mexico, in addition to the US-supported resolution sponsored by seven Latin American countries--and other drafts are reportedly in preparation. Mexico--without notifying other Latin American states in advance--submitted on 18 April a draft resolution urging all states "to ensure that their territories and resources are not used to promote the civil war in Cuba." The Venezuelan and Argentine UN delegates, sharply critical of the Mexican move, believed that while the Mexican draft would not have much effect on the Latin Americans, it would draw the support of Afro-Asian members.

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There appears to be increasing factionalism within the Congolese centers of power. The Katanga regime in particular appears to be entering a period of instability as a result of a drop in Tshombé's prestige, a rise in tribal tensions, and a growing opposition to the Belgian presence. At the same time, there are indications that both the UN and the radical African powers are adopting tougher Congo policies.

In Leopoldville, Kasavubu on 17 April formally agreed to permit a reorganization of the Congolese Army under UN auspices. However, he seems still unwilling to permit even a token UN military presence in the port of

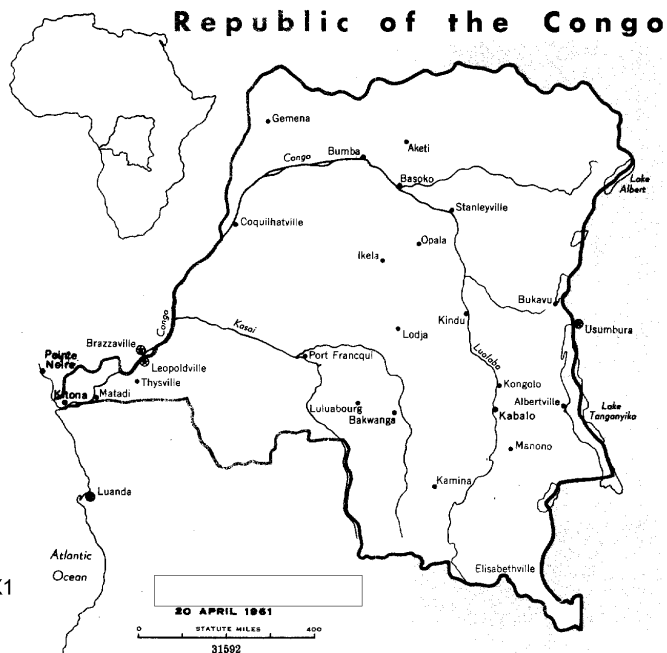
Matadi. Hammarskjold is continuing his pressure on this issue, but the UN apparently has arranged to ship goods via Pointe Noire and Brazzaville in the former French Congo if Matadi remains closed.

Nevertheless, the relatively calm state of relations between Leopoldville and the UN could be reversed by Rajeshwar Dayal's return to the Congo as Hammarskjold's representative. Dayal reportedly is scheduled to arrive in Leopoldville on 28 April.

In an effort to isolate Tshombé, Kasavubu's agreement with the UN also calls for the expulsion of all foreign political and military functionaries hired by any agency other than the Kasavubu government.

Meanwhile, the situation in Orientale Province remains unclear. Mobutu's announcement of 17 April that he has reached agreement with Gizenga's military leaders has yet to be confirmed by civilian officials in either Stanleyville or Leopoldville. Ileo's government, which has been preoccupied with the dispute with the UN over Matadi, has not provided any direction for solving the internal problems facing it.

Leopoldville's financial situation continues to deteriorate. The treasury deficit for March was \$15,700,000, more than double the month's receipts. The Congolese governor of the



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National Bank charged on 14 April that the cause of this deterioration is irresponsibility in several governmental agencies, particularly the army.

Rapid and far-reaching political changes are likely in Katanga, according to the American consul in Elisabethville. The UN's apparent determination to contain Tshombé's military operations in the northern part of the province, which led to the UN's takeover of Kabalo and the capture of most of Tshombé's South African "legionnaires," reportedly has been a major setback to the Katanga president and has stimulated latent personal and tribal rivalries.

Interior Minister Munongo, who leads the conservative tribal faction, appears to be behind an attempt in the legislature to create a Katangan prime ministership and to relegate Tshombé to largely ceremonial presidential functions. Tshombé has declared these efforts illegal, but his opponents seem to dominate the legislature.

The internal tensions have been accompanied by an increase in anti-Belgian sentiment among the Congolese, and Tshombé has become isolated to some extent in his continuing support of the Belgian presence. Moreover,

many Belgians in the Katangan armed forces reportedly have begun to question whether they should oppose the UN by force. A feeling is growing in Elisabethville that few of Tshombé's Belgian advisers will remain after negotiations between the UN and the new government in Brussels.

The control of Gizenga and his aides in Stanleyville seems to have weakened. General Lundula, the Stanleyville military commander, reportedly has been unable to establish his authority over rebel army units which recently returned to the city from the Orientale-Equateur provincial border. In addition, district commissioner Bernard Salumu, who has been at odds with Gizenga before, apparently was arrested for a brief period last week but was eventually restored to his position.

The "Casablanca powers"--Ghana, Guinea, Mali, Morocco and the UAR--are again attempting to furnish material support to the Gizenga regime. President Nkrumah announced on 18 April that Accra would send an ambassador to Stanleyville and hinted that arms would also be sent unless Belgian military aid to Tshombé was halted.

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[redacted]
 Britannia and IL-18 aircraft in Ghana could be used to move the arms to Stanleyville, but all

efforts to supply Gizenga continue to be hampered by the refusal of neighboring territories to grant transit privileges. [redacted]

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NUCLEAR TEST BAN NEGOTIATIONS

At last week's sessions of the nuclear test ban conference in Geneva, Soviet delegate Tsarapkin made no effort to compromise outstanding differences on key features of the control system or on the research program to improve detection techniques. On 13 April he stated that the whole question of a research program was a "sensitive political" question and the consequences would be serious if the US proceeded unilaterally without Soviet agreement. He declared that both the number of nuclear explosions and their purpose must be agreed to by the USSR.

Tsarapkin specifically objected to the inclusion of artificially muffled explosions in a research program and stated that the USSR could not agree to such experiments on the grounds that they were intended to devise means of evading controls. On the moratorium on underground tests during the research program, he repeated the

Soviet position that the three powers should not automatically be free to resume underground testing when the moratorium expired.

Tsarapkin also clarified the Soviet position as to when on-site inspections could be initiated. On 15 April he explained that inspections in the USSR could not begin until all control posts were installed in the territories of the three powers and in areas where other nuclear explosions might occur. Under the Soviet installation schedule, this would mean no inspections in the USSR could be made until after four years. He charged that Western attempts to show that there were previous inconsistencies in the Soviet position stemmed from a desire to create a propaganda situation in which the West could conveniently break off negotiations.

In his initial comment on the complete draft treaty

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introduced by the Western powers on 18 April, Tsarapkin said that the USSR would study the draft but regretted that it did not take account of Soviet proposals on certain important issues.

The generally negative attitude of the Soviet delegation was also reflected in Khrushchev's remarks to Walter Lippmann in their interview on 10 April. According to Lippmann, Khrushchev cited three reasons why he had no great hopes for a test ban agreement. In the first place, Khrushchev claimed that Western opposition to an agreement was shown by the proposals for 20 on-site inspections in the USSR, since he had been led to believe, presumably by Macmillan, that the West would be satisfied with three "symbolic" inspections.

Secondly, Khrushchev said that since the French were testing, they were unlikely to sign an agreement and would conduct tests for the US. When Lippmann mentioned possible Chinese Communist testing for the USSR, Khrushchev said while Peiping was moving in a direction where it could hold tests, this was not yet the case. He added that, when that time came, there will be a "new problem" and that the USSR would like all states to sign an agreement.

Khrushchev said his third reason was that the USSR could never accept a neutral administrator for the control system

and would insist on its proposal for a tripartite administrative council.

In a recent private conversation with the Western delegations, Tsarapkin and another member of the Soviet delegation took a similar line. While indicating that the Soviets would not match Western concessions on key issues, Tsarapkin said that on-site inspections would not be subject to a Soviet veto if the West accepted the proposal for a tripartite administrative council. He linked this proposal with the number of on-site inspections as the two issues in which the West would have to meet the Soviet position.

A member of the Soviet delegation stated that these two questions and the issue of artificially muffled explosions in the research program were the only important points of difference. He claimed that on all other issues the two sides were not far apart. Tsarapkin took the familiar line that the USSR deeply desired a treaty and that negotiations must continue in Geneva until a treaty is concluded.

The US delegation noted that the Soviet delegation appeared not to be under any pressure of time schedules and appeared willing to wait without making any concessions.

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REPLACEMENT OF TOP OFFICIALS IN SOVIET TADZHIKISTAN

The three top political leaders in the Soviet Republic of Tadzhikistan were fired from their jobs on 12 April and expelled from the Communist party. This was the most severe shake-up in any republic since Khrushchev last January undertook a purge of the party and government bureaucracies in an effort to bolster lagging Soviet agriculture. Tadzhik party First Secretary Uldzhabayev, republic Premier Dodkhudoyev, and party Second Secretary Obnosov were charged with fraud against the state through falsification of cotton production reports; three other Tadzhik officials--a deputy premier, a deputy chairman of the republic planning committee, and an oblast party chief--were implicated and also fired. An investigation was ordered of still other leaders and workers who had been involved.

The punishment of the principal victims--expulsion from the party--is the harshest inflicted in recent years on officials of their rank. The shake-up, moreover, was supervised by Khrushchev's second in command, party secretary and presidium member Frol Kozlov. This is a further indication of the Soviet dictator's determination to stop the padding of production reports.

Collusion in this practice has become widespread and creates an increasingly grave problem for the regime. The padding hides laxity and incompetence, and the operation of the economy, planned on the basis of the false figures, is seriously impaired. Khrushchev has made it clear that he feels

a large share of the blame for the Soviet Union's recent agricultural difficulties is chargeable to this practice. "Pulling wool over the eyes of the state" has become the most frequent charge in the purge campaign, now in its 16th week.

Since before Stalin's death, Tadzhikistan has been held up as an example for the neighboring republic of Uzbekistan to emulate in cotton production. The pace of competition apparently became too great, however, and the Tadzhik leaders, rather than admit failure, resorted to the rigging of accounts. The charges against them include reporting ahead-of-schedule fulfillment of cotton production plans when, in fact, the plans were not met at all.

The shake-up apparently was in preparation for several weeks. I. G. Koval, an inspector from party headquarters in Moscow who replaced Obnosov as Tadzhik second secretary, was in Tadzhikistan in February, and other organizational and cadre specialists from headquarters were unusually active in the republic in ensuing weeks. The final decision was reached sometime before 8 April, when the new Tadzhik party chief, Dzhabar Rasulov, was recalled from the Togo Republic--where he had been ambassador since June 1960.

The 48-year-old Tadzhik party leader has been republic premier (1946-55), deputy USSR minister of agriculture (1955-58), and a party secretary in the republic (1958-60). The new premier, Abdulakhad Kakharov, was a deputy premier and chairman of the republic Gosplan. 25X1

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USSR REORGANIZES ADMINISTRATION OF SCIENTIFIC RESEARCH

In a move apparently designed to improve the coordination of scientific research activities and make the country's scientific effort more responsive to the needs of the economy, the USSR on 8 April created within the Council of Ministers a State Committee for the Coordination of Scientific Research Work. Also, it abolished the State Scientific-Technical Committee and relieved the Academy of Sciences of certain "practical" tasks which have prevented it from fully concentrating on its major function--basic research. M. V. Khrunichev, a former first deputy chairman of the State Planning Commission (Gosplan), has been appointed to head the new committee; he has also been elevated to the policy-making level as deputy chairman of the Council of Ministers.

The State Scientific-Technical Committee (GNTK) was established in May 1957 as a channel of communication between science and industry and to direct the introduction of new technology into the economy. The organizations of the GNTK have been transferred to the new committee. Certain planning functions of the GNTK had already returned to the "planning organs"--Gosplan and the State Scientific Economic Council.

One of the main tasks of the new state committee will be to control the work of certain research institutions on complex scientific and technical problems which fall within the jurisdiction of several organizations. Other primary tasks will be the maintenance of continuity in the field of scientific research and the application of its results to the economy. Public charges over the past few years had stated that there was duplication of effort, that many of the research projects were not related to military, economic, or industrial needs, and that some highly paid scientists were not producing. Since it will have responsibility for

planning capital investment in the field of scientific development and for financing and equipping research work, the committee will probably assume considerable control over scientific research.

The Academy of Sciences, for its part, will probably continue to be largely autonomous in basic research and may even increase its influence in this area, since it will have less responsibility for technical questions. The new committee will act as a liaison between the planners and the scientific community.

The new committee is also charged with coordination of the efforts by the academies of sciences of the USSR and of the republics, by the various ministries, and by other agencies to carry out complex research studies. In this field, it is likely that the committee will concentrate on coordinating "trouble-spot" research problems, particularly those having potential industrial or military application. The committee is also directed to study the achievements of science, to act as a funnel for international scientific contacts, and to oversee the exploitation of foreign research.

Chairman Khrunichev has served in the munitions industry and as minister of the aviation industry. In 1953 he was first deputy of the Ministry of Medium Machine Building--the atomic energy authority in the Soviet Union. In addition, more recently, as a first deputy chairman of the State Planning Committee (Gosplan), he was head of Gosplan's "First Department," an organization thought to have some special weapons function; it is thus possible that the function of the new committee will cover special weapons and other military research and/or space technology, as well as non-military research. (Prepared jointly with ORR and OSI)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SOVIET GOLD SALES ON INTERNATIONAL MARKETS**

After a lapse of more than five months, the USSR has resumed selling gold on international markets, with reported sales between 15 March and 10 April of \$156,750,000--\$101,750,000 on the London market and \$55,000,000 to the Bank of France. This total not only is the largest amount of Soviet gold ever sold in such a short period, but also is well above the unusually low volume of gold sales in 1960 and suggests that the total for 1961 may exceed the high of \$300,000,000 for 1959. The average annual sales in recent years have been about \$200,000,000.

The significance of Moscow's re-entry into the gold market appears to lie in the timing as well as in the size of the sales. From May to October in 1960 the USSR sold a total of \$125,000,000 worth of gold but then abruptly withdrew from the market during the international "gold rush" last fall. Its absence from the market until last month suggests a disinclination to ease the strain on the dollar through gold sales and may also have reflected Moscow's belief that the new US administration would be forced to raise the price of gold. The recent resumption of sales was probably motivated by the increased stabilization of the gold market, repeated denials by the US Government of any intention to change the price of gold, and the balance of payments pressure on Moscow caused by its sustained import drive.

Soviet imports from Western Europe and the sterling

area are expanding at a greater rate than exports. Moscow's balance of trade with the sterling area has changed from a slight surplus in 1958 to a deficit of about \$100,000,000 in 1959 and an estimated deficit of about \$130,000,000 in 1960. Similarly, Soviet imports from the industrialized countries of West Europe in 1960 increased almost 50 percent over 1959, while total exports to the area rose less than 20 percent, thus reducing the traditional Soviet export surplus with the area from \$164,000,000 in 1959 to \$76,000,000 in 1960. This shift in Soviet trade balances with nonbloc areas, coupled with the small sales of gold last year, has undoubtedly caused a drain on Soviet foreign exchange reserves necessitating Moscow's re-entry into the gold market.

Persistent reports that the USSR is supplying Communist China with foreign exchange to ease its difficult economic situation remain unconfirmed. It is possible, however, that the USSR is acting as an agent for Chinese gold transactions. The Chinese gold holdings are estimated to be worth \$100,000,000 to \$200,000,000, part of which is assumed to have been sent to the USSR for minting and presumably for ultimate disposal in Western markets. If any of the currency gained from current Soviet sales should end up in China, it is likely to be the consequence of arrangements of this nature rather than the result of Soviet aid.

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Polish economic development during the past five years has been more balanced than during the pre-1956 period of Communist rule, and despite failure to meet some of the specified targets of the First Five-Year Plan (1956-60), all major sectors of the economy scored substantial gains. Net industrial production increased 47 percent, and agricultural production--stagnant from 1951 to 1955--rose an estimated 17 percent, well below plan but more than in any other European satellite during the 1956-60 period.

The regime was able to achieve a substantial increase in investments as well as consumption, greater utilization of existing industrial productive capacity, higher inventories, a smoother and more adequate flow of major materials, and a rising rate of growth in labor productivity. One of the main causes of these important successes was the large increase in imports, some of which were financed by foreign credits. A marked worsening in the terms of trade has accounted for about \$316,000,000 of the trade deficit since 1957--approximately half the total deficit for the period. Thus Poland had to export 11 percent more goods in 1959-60 than in 1957 to pay for a given amount of imports. During the 1956-60 period, Poland ran a deficit of \$925,000,000 in its commodity trade. US credits amounted to almost half of this deficit.

The amount of consumer goods increased considerably. Consumption during 1956-60 rose almost 20 percent, greatly surpassing the very small increase of 1951-55. Partly as a result of this rise, discontent over living conditions does not appear to be as acute as it was in 1955 and 1956.

Most of the increase both in agricultural production and standard of living occurred during the first half of the five-year period. Favorable weather, the lifting of the collectiviza-

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tion threat, and increased government support for private farming stimulated agricultural production during the early years of the plan. However, a decline in agricultural production in 1959, together with inflationary pressures and the need to reduce the foreign trade deficit, caused the regime to introduce an "austerity" program and tighter controls over wages. Consumption, which had grown rapidly from 1956 through the first half of 1959, declined and during 1960 failed to rise above the average 1959 level.

The Polish economy is likely to be under increasing strain during the Second Five-Year Plan (1961-65). Higher output depends more and more on investment because excess labor and plant capacity have been progressively absorbed during the past few years. The regime accordingly plans to increase the share of investments in the national income. The cost of the investment program may prove to be even higher than planned, especially in the case of new plants, where costs and construction periods have been grossly underestimated in the past. Furthermore, unless large, new foreign credits are received, Poland after 1961 will have to devote greater resources to reducing the foreign trade deficit. On the positive side are a number of steps already taken to increase efficiency and the regime's better control over domestic incomes and expenditures since late 1959.

According to leading Polish economists, the investment program and the need for reducing the foreign trade deficit will make it difficult to expand consumption appreciably before 1964. Thus, living conditions of the Polish population, now no better than they were two years ago, may not improve visibly for another three years. Should political conditions warrant, however, the regime could utilize its presently large retail inventories to raise consumption more than planned in 1961.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****HUNGARY AND THE UN**

Budapest has taken a series of steps designed to improve its relations with the US in an effort to demonstrate its reasonableness and thus undercut the US position on Hungary in the UN. Although the United States has rounded up almost as many co-sponsors for a new resolution on Hungary as it did for the resolution in December 1959, there is considerable sentiment even among supporters of the charges that Hungary should be dropped as a UN agenda item. Hungary apparently hopes to capitalize on this fact. The regime evidently feels that time is on its side and that it will achieve international acceptance without making any gesture of complying with repeated UN resolutions or of recognizing that organization's authority.

Foreign Ministry protocol chief Radvanyi told US Legation officials on 28 March that all outstanding US diplomatic and official visa requests would be approved. The US has also granted a large number of long-pending visas to Hungarian officials. Radvanyi added that refusals and delays "were a thing of the past." He also stated that the regime intended to remove the police boxes and guards in front of all diplomatic residences.

Another Foreign Ministry official, Pal Racz, observed that US officials would no longer have any trouble traveling in Hungary. The legation notes that the last four trip requests have been granted, whereas between July 1959 and November 1960, 62 of 107 trip requests were turned down. Recent statements by Hungarian officials do not suggest, however, that any change will be made in the extensive areas prohibited to US diplomats.

In recent months, Budapest has been increasingly assertive in demands for a normalization

of relations, and since the turn of the year it has adopted a less restrictive policy toward the legation. In the latter part of 1960, heavy pressures were exerted against the legation and its Hungarian employees. In early February, however, a potentially troublesome auto accident involving an American official was played down. Later in the month, genial greetings were extended to the new US charge. The regime has not, however, stopped police surveillance of the legation or harassment of its local employees.

Budapest has not altered its position regarding action on the Hungarian issue at the UN. Racz restated his government's hope for "optimum relations" with the US but found the continued pressing of the Hungarian question at the UN, particularly the credentials issue, a serious barrier. Acting Foreign Minister Szarka, in response to an informal probe by French Minister Boncour on 17 March, labeled as "unacceptable" any plan to have UN General Assembly President Boland make a private visit to Hungary to be followed by announcements which could be interpreted as compliance by Budapest with UN directives.

Numerous UN resolutions have been passed since November 1956 dealing with Soviet aggression and repression in Hungary and with the continued failure of either Moscow or Budapest to cooperate with the UN and its special representatives--at first Prince Wan of Thailand and now Sir Leslie Munro of New Zealand. The US Legation observes that Budapest is unlikely to make any gesture which might bolster the UN's prestige during the current bloc attack on that institution over the Congo problem. 25X1

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SINO-US RELATIONS

While Peiping is insisting both publicly and privately that it sees no essential difference between the Eisenhower and Kennedy administrations on basic China policy, at the same time it is apparently encouraging approaches to the new administration by selected neutrals.

In talks with Djakarta officials during his state visit late last month Foreign Minister Chen Yi

told newsmen that better relations "depend on whether President Kennedy takes the initiative" and suggested that the withdrawal of the Seventh Fleet from the Taiwan Straits "ought not to be a difficult thing"--presumably as a first step toward the withdrawal of American support for Chiang Kai-shek.

Since September, Peiping has placed the Taiwan issue increasingly in the forefront as the problem which must be solved prior to any other between China and the United States. Following the 100th Sino-US meeting in Warsaw last September, Peiping blamed the US for the lack of progress and stated that efforts to settle all Sino-US issues would be unproductive so long as the US "occupation" of Taiwan continued. In the face of a fresh US approach on the exchange of newsmen at the 7 March Sino-US meeting in Warsaw, Peiping demanded that the US accept an agreement on the exchange which it had proposed on 6 September 1960. This agreement required US acknowledgement of Chinese Communist claims to Taiwan. Peiping's earlier proposals on the exchange had demanded as a precondition only full "equality and reciprocity."

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China may even be tying the Taiwan issue to the question of China's representation in the UN. Chen Yi was quoted recently by a Hungarian newsman as making the removal of US forces from the Taiwan area a condition for Peiping's taking a seat in the UN. Sensing a growing international pressure for its admission, Peiping may feel that it now can profitably push the Taiwan issue beyond the field of bilateral Sino-American relations and force the US to defend its position before an international forum.

The Chinese have sought to allay any impression that their attitude on Sino-US relations is in any way affected by their internal economic difficulties.

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SPRING FAMINE IN CHINA

As Communist China moves into the last months before the new harvest in June, the food situation in many areas has become desperate. Although Peiping has strictly rationed staple foodstuffs--using the slogan "a small stream flows longer"--foreign observers and refugees report that conditions in many areas have deteriorated to their lowest point since the Communists came to power in 1949.

the droughts in 1959 and 1960. Other reports speak of chaotic conditions in villages outside Tientsin and Peiping.

From all accounts, apathy and lassitude--the desire to do only enough to get by--are widespread among the people, particularly the peasants.

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The incidence of disease, particularly beri-beri and dropsy, has increased sharply. Refugees report a marked rise in deaths among both the old and very young.

sonnel sent to the countryside "to aid agriculture" have been chided about their overenthusiasm for work by the farmers.

Some areas are worse off than others. In general, the cities have more food than the countryside, and conditions in the south are better than in the north.

Almost no information is available on the attitude or loyalty of the public security forces and army, but there are increasing manifestations of corruption, lack of discipline, and sympathy for the population among lower level cadres. Bribery, almost unheard of in the early years of Communist rule, is on the rise, and some individuals have bought their way out to Hong Kong. In the food-short areas, theft, particularly from the fields, is widespread. In some areas farmers reportedly patrol the fields; in others no one attempts to stop the thieves.

Peiping has admitted Shantung was seriously affected by

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On top of this, the prospects for the early wheat crop are not good unless weather conditions improve in the next few weeks. The two-year drought in North China is continuing. A lack of precipitation apparently affected fulfillment of winter acreage targets, and soil moisture is still well below normal. Precipitation in northern Honan during the past winter and spring is said to have been only 25 percent of normal, and Shantung Province is said to have received only 45 percent

as much as in the dry 1959-60 growing season.

By scheduling additional large imports of wheat for later this year, Peiping is apparently moving to offset an expected shortage in the 1961 wheat crop. If, as is indicated now, the early wheat crop in the North is bad, it will be impossible for the regime to raise ration levels there. Confronted then by its third bad harvest in a row, Peiping would encounter increasing difficulties in curbing popular hostility.

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FRANCE-ALGERIA

Although the rebel Provisional Algerian Government (PAG) has not responded to De Gaulle's 11 April press conference or his subsequent public invitations to negotiate, there are indications that the rebels may now be disposed to react favorably. Speculation on a new date for beginning the talks centers on the period 27 April - 5 May; some reports suggest the date may not be announced until the night before.

The liberal former mayor of Algiers, Jacques Chevallier, told US Embassy officers in Paris that during an Easter visit to Algiers, he found his Moslem friends convinced that they had won independence, but full of uncertainty over the future. He said they were particularly conscious of the unreadiness of the rebel leaders to assume the grave responsibilities facing them and added that he was personally convinced that the PAG, when faced with imminent negotiations, realized its

own inadequacies and became frightened. Chevallier also thinks that De Gaulle played an astute psychological note by bringing up the economic hardships which would result for the Algerians if they broke with France.

Georges Pompidou, the French negotiator who met secretly with PAG representatives in Switzerland during February and March, said on 13 April that during these talks the PAG indicated in strong terms its fear that Algeria might be partitioned. Pompidou felt that De Gaulle's virtual threat of partition in his press conference might lead the PAG to come to Evian out of fear that partition would actually be effected and endure, as in the case of Israel.

Pompidou also said he feels certain that the USSR, which earlier this year favored negotiation, now is counseling the rebels against it. In this

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connection, Minister for Algerian Affairs Louis Joxe told the American Embassy in Paris prior to Tunisian President Bourguiba's February meeting with De Gaulle that the USSR was "complicating matters" by trying to insert itself into the general Algerian picture.

De Gaulle followed his 11 April press conference with a five-day speaking tour of southwest France during which he hammered home for the benefit of both the French public and Algerian rebels the themes of "peace and association." He climaxed

the tour at Bordeaux with a reference to the rebels as "first of all" among elements with which an Algerian settlement must be reached. This, plus his continued omission of any reference to the rival Algerian National Movement, seems to have cleared the air of the PAG's public objections to opening talks on 7 April as originally scheduled.

Secret contacts apparently have continued, but there is as yet no indication of any agreed position on what questions are to be discussed at any negotiations that might take place.

PORTUGAL-ANGOLA

The Portuguese cabinet reshuffle of 13 April, in which Premier Salazar took over the Defense Ministry portfolio from General Botelho Moniz, reaffirms Salazar's "stand firm" policy in Africa. With the steady worsening of the Angolan situation and its growing drain on Portuguese military resources, however, the dissatisfaction among military supporters of Moniz will probably continue and may again pose a threat to the regime.

In his radiobroadcast on 13 April Salazar ascribed the cabinet shake-up solely to the need for defending Angola.

has attributed Moniz' removal partly to his opposition to heavy involvement of Portuguese military resources in a repressive policy in Africa. The Lisbon government has already begun to send heavy reinforcements by air and sea to the province to check further terrorist activities.

The danger of a military takeover, such as Moniz threatened prior to the cabinet changes, has apparently been neutralized for the present by a rapid change of those unit

commanders loyal to him. The new top-level military figures seem to be adherents of Santos Costa, Moniz' rival and his predecessor in the Defense Ministry. Moniz himself is said to be restricted to his home under close surveillance.

Continuing disorders in widely scattered areas of northern Angola and Cabinda are reported in the Portuguese press. The American consul in Luanda reports that terrorism and governmental repression have resulted in the deaths of thousands of Africans and hundreds of whites in the past month. He believes that the Africans will no longer be satisfied with even a drastic reform and that the continuing terrorist campaign may eventually lead to a complete breakdown of law and order. White opposition to Lisbon's policies apparently is also increasing in Angola, and Lisbon may have difficulty maintaining control over European as well as native elements.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****ARAB MILITARY COMMANDERS' MEETING**

The Arab League military commanders' conference is scheduled to convene in Cairo on 22 April, and reportedly will concern itself chiefly with a discussion of military countermeasures to Israel's Jordan River diversion project. Other topics on the agenda are said to be Israel's nuclear capabilities, methods of supplying Arab armies in the light of this threat, and French military aid to Israel. Newspapers in Cairo and Baghdad have also reported that the meeting will discuss the staging of an Arab military parade in Jerusalem as an "answer" to Israel's Independence Day military parade there on 20 April. The Jordanian foreign minister, however, has said his country is not planning any such demonstration.

The question of a military reaction to Israeli diversion of Jordan River waters was referred to the Arab chiefs of staff by the Arab League's foreign ministers, who met in Baghdad in February. The foreign ministers reportedly agreed on the principle of retaliatory military action if Israel should implement its scheme.

The Arabs' attitude on the Jordan River issue accords with their refusal to recognize any Israeli rights in Palestine, but they are particularly fearful that Israel's project, which aims to irrigate the Negev wastelands, will facilitate the settlement of additional Israeli immigrants and increase the threat of eventual expansion by Israel into the territory of neighboring Arab states. The league has also considered diverting three of the Jordan River's tributaries in Lebanon and Syria.

The Arab sense of urgency regarding this problem apparently is based on the assumption that Israel's plans will soon be fulfilled. The Israelis, however, assert that water will not be taken out of the Jordan basin until 1963. At that time the first stage of their project, which will involve pumping water from Lake Tiberias, is scheduled for completion. The plan calls for diversion of water from the river itself by 1969.

Israel has said that the amount of water it will take will be within the quota allotted by the Johnston Plan. In 1955 the Arabs agreed to technical provisions of that American-sponsored scheme for joint development of the Jordan basin, but they rejected it on political grounds because of its implicit recognition of Israel's right to use the water.

The Jordanians--who are the most directly concerned--are less bellicose than the UAR on this issue, fearing that action against Israel would jeopardize their own exploitation of the river further downstream. Their moderation may temper, if not disrupt, joint planning by the Arab commanders in Cairo.

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The Jordanians regard the military conference as a test of whether their army leaders can negotiate "with independence and honor." Each Arab state, with the exception of Tunisia, will be represented.

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Sierra Leone, Britain's oldest dependency in Africa, promises, at least initially, to be one of the more moderate and pro-Western African states after it becomes an independent member of the Commonwealth on 27 April. The country is approximately the size of the Republic of Ireland with a population of about 2,400,000--of whom all but about 3,000 are Africans. Politically it is reasonably well prepared for independence, but its prospects are clouded by basic economic and social problems. These include latent tribal frictions, especially between the Moslem Temnes of the Northern Province and the Christian Mendes of the south. The latter have long predominated in government, education, and business.

Since its formation in 1951 the Sierra Leone People's party (SLPP) of British-oriented Prime Minister Sir Milton Margai has had a majority in the legislature. Margai has functioned as the principal native minister since 1953; at present he heads a United National Front government which is dominated by the SLPP but includes all other parties in existence at the time of the coalition's formation a year ago.

The political outlook after Margai, who is 65, is less promising. Among present leaders, only the premier's younger brother, Minister of Natural Resources Albert Margai, seems a likely leader. However, he has made many enemies and aroused suspicions, particularly by his conduct while in opposition to his brother between 1957 and 1960.

At present the focal point of opposition is the All-People's Congress (APC), a small but vocal faction dominated by opportunists and pro-Communist extremists. Organized last September by Siaka Stevens, a former protégé of the prime minister, the APC has demanded elections before independence and denounced the government's plan to conclude a defense agreement with Britain. The party's leaders were jailed recently following local disturbances and indications they were planning to cause trouble--apparently in collaboration with certain labor elements--at the time of the independence celebrations.

The opposition is likely to attract a wider following as the euphoria generated by independence wanes; the government will be hard pressed to demonstrate progress toward modernizing an economy still resting on subsistence agriculture. Economic development will depend primarily on expanding mineral exports, notably diamonds and iron ore, the value of which exceeds that of traditional agricultural exports--palm kernels, coffee, cocoa, piassava, kola nuts, and ginger. A \$25,000,000 jump in the value of legal diamond exports in 1960 has provided additional revenues. It also indicated substantial progress toward controlling diamond smuggling, which has caused the government considerable financial loss.

Sierra Leone will still need external economic assistance appreciably greater than the \$21,000,000 the UK has agreed to provide over the next three years. Such aid may be sought

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from bloc countries--especially Communist China, which has been invited to attend the independence ceremonies and is reported to have offered economic assistance.

With regards to African affairs, the present government will be much more likely to follow the lead of relatively moderate Nigeria and even of con-

servative Liberia than that of Ghana's Nkrumah, who has long antagonized Sierra Leoneans. The Margai government is particularly wary of Sekou Touré's bloc-subsidized regime in neighboring Guinea, which is suspected of engaging in various subversive activities in Sierra Leone, including the provision of financial support and small arms to the APC.

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WEEKLY REVIEW

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****JAPANESE LABOR EXPANDS BLOC TIES**

Leaders of Sohyo, Japan's largest labor federation, are pushing ahead with plans made last summer for developing closer ties with bloc labor organizations. A Sohyo-sponsored delegation tentatively scheduled to visit the USSR and East Germany beginning late this month is the latest in a new series of exchanges with those states and Communist China.

During the Sohyo convention last August, Sohyo President Kaoru Ota and Secretary General Akira Iwai agreed with Chinese Communist, Soviet, and East German delegates on a program of increased cultural exchanges. Since then, Ota and Iwai have separately visited major bloc capitals to make arrangements. The Communist-front World Federation of Trade Unions sponsored Ota's trip.

Some Japanese labor leaders are apparently trying to lay the groundwork for closer coordination with trade union actions abroad in support of their own campaigns against the Japanese Government. During Ota's visit to East Germany on 12 January, he and Herbert Warnke, chairman of the East German trade union federation, joined in a declaration of common goals and endorsed Communist policies in Europe and the Far East. They pointed out that Japanese demonstrations against the US-Japanese security treaty last spring could

serve as an example for the workers of West Germany.

Sohyo leaders have also made overtures to non-Communist nations, but these appear to be tactical moves to counter criticism of their pro-Communist posture. Ota made his first appearance at a US Embassy social function in February, shortly after his return from the bloc, and is talking about visiting the US sometime after July. He included Western European capitals on his recent tour, but many of his contacts were with Communist leaders, such as Maurice Thorez in France and Palmiro Togliatti in Italy.

Japanese overtures have been welcomed by bloc labor leaders--especially by the East Germans, who are anxious to win support from labor unions outside the bloc for recognition of East Germany and for opposition to West Germany's claim to be the only legitimate German state. American officials in West Berlin viewed Ota's visit to East Berlin as a major success in the efforts of the East German federation to influence nonbloc unions.

Sohyo has coupled this new round of "invitation diplomacy" with a moderately successful campaign to discredit the Japanese Government in international labor forums. The government has lost some international support because of its delay in ratifying the International Labor Organization's convention 87, guaranteeing workers' freedom to join unions.

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BLOC ECONOMIC RELATIONS WITH BRAZIL

Two government delegations from Brazil are visiting the Soviet bloc to implement President Quadros' policy of expand-

ing relations with Communist countries. Facing a potential payments deficit of roughly one billion dollars for 1961, Quadros

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is seeking to develop economic relations with the bloc to supplement Western aid, which is expected to be largely in the form of rescheduling debt repayment. In addition, Quadros apparently is eager to reduce economic dependence on the United States as part of the effort to achieve world power status for his country.

A trade mission recently left Rio de Janeiro for the USSR, where it will negotiate a 1961 protocol to the Soviet-Brazilian trade agreement signed in December 1959. Another mission is visiting Albania, Bulgaria, Rumania, and Hungary--all of which recently established diplomatic relations with Brazil--and it is rumored that it will also travel to the USSR and possibly Communist China.

These contacts probably will result in broader economic ties between the bloc and Brazil. Moscow may use the occasion to embark on a program of economic aid in order to promote Soviet interests in a country in which normal trade contacts have not proven particularly successful.

Public announcements indicate that the Brazilian delegations are armed with extensive import requirements from various government economic agencies.

If agreement is reached on the eventual exchange of diplomatic representatives between the USSR and Brazil, Moscow and its satellites probably will respond favorably to requests for long-term credits and

technical assistance to satisfy these requirements partially.

Bloc economic relations with Brazil have been confined almost entirely to trade thus far. No long-term credits have been extended, and less than \$4,000,000 in medium-term commercial credits have been granted to finance Czech and Polish exports. A few bloc technicians have worked in Brazil, but in the absence of a formal program of economic aid their influence has been slight.

As a result of agreements concluded with the USSR, Poland, and Czechoslovakia in late 1959 and early 1960, the level of bloc-Brazilian trade rose last year to an estimated \$150,000,000--some 6 percent of Brazil's foreign trade. Poland and Czechoslovakia accounted for well over half this amount, while the USSR's share rose to nearly 20 percent. The 1960 goals of these agreements were not met, however, chiefly because bloc purchases of Brazilian products were below planned levels.

Any significant expansion of Brazil's trade with the bloc hinges on the bloc's willingness to increase its purchases from Brazil, with surplus coffee the key item. The bloc has shown little inclination to boost its coffee purchases to a level which would make bloc trade of substantial economic importance to Brazil. Bloc coffee imports from Brazil amounted to around \$22,000,000 last year, constituting about 30 percent of all Brazil's exports to the bloc. Moscow contracted for only about half the coffee called for in its trade agreement.

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The bloc probably will accept greater quantities of Brazilian products to provide the basis for the increased sales of petroleum, wheat, and industrial machinery and equipment which have been proposed. To

facilitate long-term trade, however, Moscow may feel the time is opportune for the extension of credits which Brazil could repay later.

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BOLIVIA

President Paz Estenssoro has been giving major attention to the Bolivian economy since his inauguration last August. Many of the original supporters of the sweeping 1952 revolution, which gave Paz his first four-year term of office, have been alienated by the economic stagnation of the last several years. Paz stated some weeks ago that the critical period for his administration would be from March through May--when his economic program would be initiated but not yet showing results.

Central to this program is the rehabilitation of the tin mines of the nationalized Mine Corporation of Bolivia (COMIBOL). The country's export earnings depend on COMIBOL, but the company's production has been declining since the 1940s. To rehabilitate the mines, a plan has been developed utilizing aid from West Germany, the United States, and the Inter-American Development Bank. However, West Germany now is reconsidering its participation as a result of an initial unfavorable report by German technicians.

Paz, who made Bolivia a net exporter of oil during his first term in office--hopes also to expand petroleum production. In order to amortize a prospective foreign loan for oil exploitation, the national petro-

leum company head, who is Paz's brother, is seeking an early increase in gasoline prices, despite the expected political repercussions. Paz has indicated previously that for certain other aspects of the economy he plans to use the \$150,000,000 credit offered by the USSR late last year.

The President faces a difficult political problem in COMIBOL's tin mines. The ruling Nationalist Revolutionary Movement (MNR) is opposed by Communists, Trotskyites, and members of the Authentic MNR, a right-wing splinter of Paz' party. These opposition elements control

BACKGROUND

The Bolivian Government, under the control of the leftist Nationalist Revolutionary Movement since 1952, has nationalized the tin mines, has distributed land to 30,000 rural families under a 1953 agrarian reform law, and, by instituting universal suffrage, has increased the electorate to about eight times the previous number of voters. However, it has not succeeded in giving momentum to the country's economic development. One of the three poorest Latin American countries in per capita gross national product, Bolivia has received about \$170,000,000 in US aid since 1952.

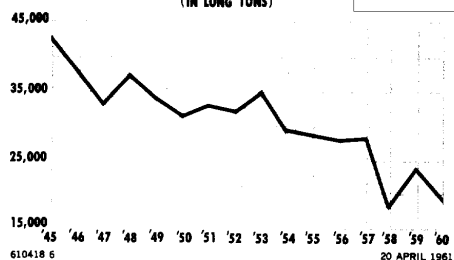
65 percent of COMIBOL's labor force and 88 percent of its production, according to a survey made in February.

Paz on 21 February began a crackdown on his opposition by declaring a state of siege. Under emergency powers he arrested and exiled a number of Authentic MNR members and several leftist

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BOLIVIAN TIN EXPORTS
(IN LONG TONS)

extremists, including the leader of the majority faction of the Trotskyites. Continuing unrest was marked in mid-April by rioting involving 5,000 students, the government party newspaper's sudden though brief replacement of the West German press service by Cuba's, and strong reaction to a critical article on Bolivia in an American news magazine. The regime used the oc-

casion of student rioting to raid the house of the leader of the rightist Bolivian Socialist Falange and to arrest several Falangists as well as the ranking orthodox Communist and the leader of the minority faction of the Trotskyites.

Paz has not yet acted against opposition union leaders in the mines--where most workers are armed--apparently because he feels unable to do so. In late March his emissaries to key mines dominated by Communist and Authentic MNR members narrowly escaped being killed. New disorders may arise from Communist efforts to gain control of the National Worker Confederation at its congress now scheduled to open in May, although postponement is under consideration because of political unrest.

HONDURAS

President Villeda Morales, who has managed to stay in power by placating both leftist and conservative groups in Honduras, has recently had increasing difficulty in coping with extremists from both sides.

Villeda is accused by his rightist opposition of weakening the military, of laxness toward Communist and pro-Castro elements, and of tolerance of Salvadoran exiles claimed to be plotting in Honduras. Leftists, including the radical wing of his own Liberal party, dislike his friendship toward the United States, his sporadic anti-Communist moves, and his modus vivendi with Armed Forces Chief Colonel Lopez, which makes the military to a considerable extent independent of presidential control. Many Liberal leaders consider

BACKGROUND

Honduras is the most sparsely populated, economically underdeveloped, of the five Central American republics. About 65 percent of its 1,900,000 people are illiterate, and most live at bare subsistence level. Its economy is based primarily on banana exports, which have been declining, and while the population expands over 3.3 percent each year, the national income remains the same. Continuous political conflicts inhibit both capital investment and the realization of agrarian and other reforms President Villeda has promised. The governing Liberal party was out of power for 25 years of military and authoritarian government before Villeda's election to a six-year term in 1957. Castro's propaganda has been very successful in Honduras, and his influence there is believed the highest in Central America.

all this prejudicial to the interests of the party.

Villeda's awareness of the dangers of increasing Communist and Castro activity was demonstrated recently when he closed a large Cuban consulate and confiscated Communist propaganda. At the same time, some leading Communists were arrested. He has not followed up these moves,

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however, and recently, in response to strong leftist pressures, he replaced the efficient public security chief. Communists have continued to support Villeda, fearing that any replacement would be from the right and thus make them subject to greater suppression.

On 12 April, Villeda, who hitherto had avoided a definite stand, made a strong speech attacking what he termed treasonous activities by Communists and reactionaries in Honduras and neighboring countries--an obvious reference to his fear of intervention by the Salvadoran Government. Evidently concerned primarily over the possibility of a rightist coup, he defined his position as middle-of-the-road and "with the US," and said that he intended to be a strong President. By emphasizing that he was speaking from air force headquarters surrounded by the cabinet, armed forces, legislators, and Liberal party leaders, Villeda attempted to dispel suspicions that any of these elements might join efforts to oust him.

Left-wing pressure on Villeda can also be expected to intensify, particularly since sympathy for Castro and the Cuban revolution is strong in Honduras and has been astutely exploited by propaganda. Unless he moves quickly to implement his planned agrarian reform or gives some proof of coming economic improvement, Villeda's difficulties will increase and plotting by both left and right will continue. An attempt by either side to overthrow him would probably provoke a countermove by the other and result in extensive violence.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SPECIAL ARTICLES****PERSPECTIVES OF A UNITED EUROPE**

The increasing prospect that by 1968--and possibly as early as 1965--the Common Market (EEC) countries will constitute an economic entity of some 170,000,000 consumers is giving increasingly greater importance to the unresolved problems of European unity.

This new economic bloc, with a productive potential rivaling those of the United States and the Soviet Union, is rapidly emerging on the Continent, yet its constituent members are still groping for the political machinery to run it. It is surrounded by a dozen countries which have felt excluded from the "heartland of Europe" and which find the establishment of working relations with it one of their most imperative foreign policy problems. Despite participation of its members in NATO and the new Organization for Economic Cooperation and Development (OECD), the community's role in the Atlantic structure of the future is still a matter of conjecture--as are the ties it eventually develops with Africa.

These issues are of immediate and practical concern, and are indicative of the major strides that integration has made. How they are decided, probably in the next few years, will determine whether the economic and political rationalization of West Europe--the fundamental objective of integration--will be completed. How they are decided will be a critical factor in the future balance of world power.

Europe Brick by Brick

The complexity of intra-European relationships is

rooted in the development of the integration movement since 1945, the conflicting ideologies which inspired it, the setbacks, and the shifting objectives.

Its first manifestation, the Western Union of 1948, was pre-eminently a military alliance directed against Germany. The Council of Europe which followed in 1949 was directed at the permanent reconciliation and pacification of war-torn Europe, while the ill-fated European Defense Community (EDC) had been designed to secure a "safe" German contribution to European defense in the wake of the Korean crisis.

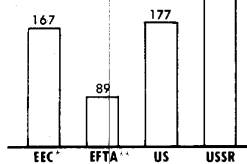
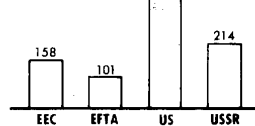
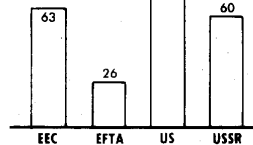
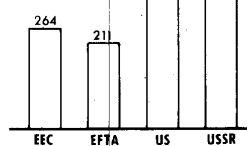
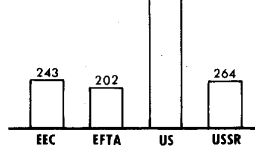
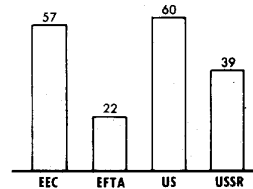
The "relaunching of Europe" after the defeat of the EDC was not achieved until 1957, when the Common Market and EURATOM proposals were ratified. Success in these instances stemmed partly from the French-British humiliation by the US and the USSR at Suez, the emergence of a kind of European "nationalism," and Europe's desire to regain its "rightful place" in world affairs.

From among all these developments, however, the Schumann proposals for the Coal-Steel Community (CSC) have stood out as the "watershed" of the European movement. They marked the ascendancy of federalist influence and produced the strategy which has brought Europe to its present degree of unification. Essentially, this strategy called for creating independent European institutions, delegating limited but progressively increasing powers to them, and restricting membership to those countries willing to accept "supranational" institutions. Britain's refusal precipitated the "split" of Europe which exists today.

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**POPULATION
MILLIONS****GROSS
NATIONAL
PRODUCT
BILLION DOLLARS****STEEL
PRODUCTION
MILLION METRIC TONS****COAL
PRODUCTION
MILLION METRIC TONS****ELECTRICITY
OUTPUT
BILLION KWH****CEMENT PRODUCTION MIL. MET. TONS**

*EEC — EUROPEAN ECONOMIC COMMUNITY

**EFTA — EUROPEAN FREE TRADE ASSOCIATION

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20 APRIL 1961

The Great European Debate

While supranationalism was only partially realized in the CSC and to a lesser extent in the Common Market, it remains the core of the political conflict which has become increasingly open and frank since mid-1960. By that time the rapid progress of the Common Market had made its "political extension" seem increasingly necessary, and, in keeping with original principles, the federalists began proposing such measures as the popular election of the European Parliamentary Assembly, fusion of the independent executives of the three communities, and closer parliamentary supervision of the councils of ministers.

De Gaulle, however, who had long been at odds with the supranationalists, immediately challenged these ideas by first formally proposing at his meeting with Adenauer in July 1960 his concept of "Europe des Patries." Loosely confederal in shape, this new Europe was to be brought into being by a popular referendum, its principal organ would be a permanent secretariat, and its policies were to be determined by periodic meetings of national heads of government and

their foreign, economics, and defense ministers.

In essence, this "Europe of Nations" was a cooperative venture similar to the moribund Council of Europe and like it subject to national vetoes; by implication, at least, the supranational institutions at Brussels would be reduced to technocracy. Recognized as a basic departure from the only integration approach which had produced results, the De Gaulle plan was widely denounced in the other five countries as a rejection of true integration, a scheme to advance French

BACKGROUND**Economic Developments in the Common Market**

Tariffs within the European Economic Community have been reduced by 30 percent since the EEC treaty became effective on 1 January 1958, and the first step has been taken toward a single tariff against nonmembers. An additional internal tariff reduction of 10 or 20 percent is scheduled for 1 January 1962, by which time all quantitative restrictions on internal trade will also have been lifted.

Other important steps toward a full economic union have been taken; however, difficult problems are being encountered in establishing a common policy for agriculture and in curbing cartels. Industry's adaptation to the larger market is proceeding rapidly—investment levels are high, numerous mergers have occurred, and sales organizations are being extended.

Gross national product in the EEC as a whole rose 7 percent in 1960, industrial production by 12 percent. Intra-EEC trade increased about 25 percent in 1960—19 percent in 1959.

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leadership of a Continental bloc, and a basic threat to the unity of NATO.

The Six-Month Conversion

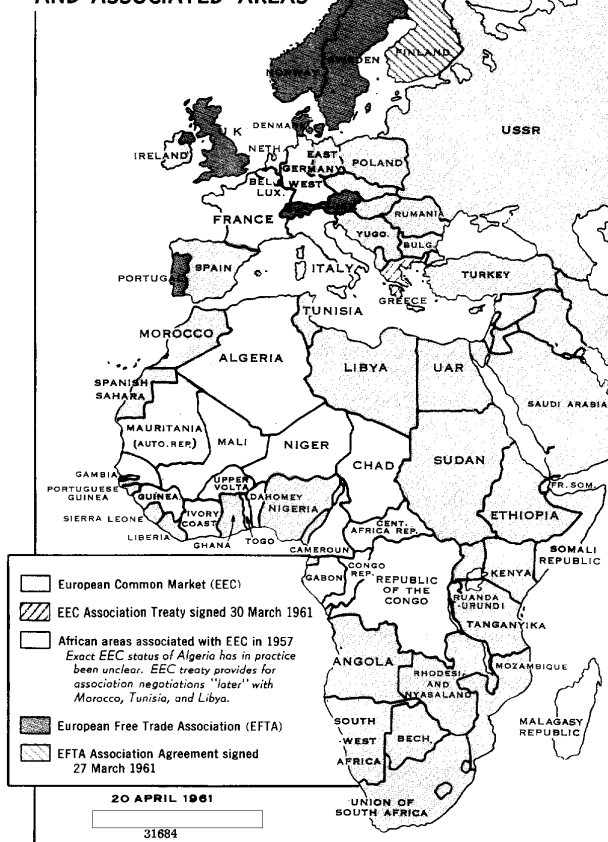
Hostility to De Gaulle's proposals persisted for some months but then subsided in the wake of a series of bilateral meetings between him and the other leaders of the EEC. The most notable of these "conversions" was that of Jean Monnet --author of the Schumann proposals and most ardent European of them all. In a letter circulated last November to members of his Committee for a United States of Europe, Monnet argued that under present circumstances (i.e., the existence of De Gaulle), political

organization of the Six would have to take the form "of a certain cooperation" until true federation could evolve.

De Gaulle obtained these conversions in part by persuasion and in part by modifying, temporarily at least, some aspects of his program. He quietly dropped the idea of a European referendum, ideologically an anathema and constitutionally impossible in several of the EEC countries; he appeared to recognize that periodic meetings of economic ministers would duplicate the existing council of the Common Market; and he seemed prepared to delay implementation of other features of his plan.

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**THE EUROPEAN COMMON MARKET,
EUROPEAN FREE TRADE ASSOCIATION
AND ASSOCIATED AREAS**



The Dutch, however, continued their adamant opposition, and the resulting communiqué was one of history's most ambivalent. Nonetheless, several points stood out: (1) it recognized that the development of a single European market and of "political cooperation" are both "major facts" of the time; (2) it asserted that creation of additional ties is a "matter of laying the foundations of a union which would develop progressively"; and (3) it established a commission to develop concrete proposals concerning both European "cooperation" and the further development of the communities.

In the meetings of this commission, which began in

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mid-March, Dutch opposition has continued, and it is possible that on 19 May, when the next "little summit" will occur, there will be no "concrete proposals" on which to agree. Even a complete failure, however, might be less important than the fact that an orderly search for mutually acceptable political institutions is under way and that De Gaulle, the hypernationalist, is even leading it. As Ambassador Butterworth, chief of the US mission to the EEC, has put it, "the potential now exists for a big step forward toward the kind of cohesion which the United States has sought on the Continent for years."

Britain's Rubicon

At least part of the Dutch complaint, however, is that whether this step is federal or confederal is of material concern both to those countries which participate and to those which do not. Abandonment of supranational institutions, the Dutch contend, eliminates the need to restrict the community in the future to those countries willing to delegate portions of their sovereignty to it. Therefore, the first agenda item should be, in their view, not the creation of new political institutions, but the assurance of Britain's participation.

The other EEC countries, however, are skeptical of the Netherlands' logic. To the suggestion that the UK, irrespective of its relationship to the Common Market, be brought into any new political arrangement on the Continent, they have responded that it is the economic interdependence resulting from EEC membership which has created the need for new political ties. Moreover, they say, the only way to assure an eventual British bid for EEC affiliation is to

complete the integration of the Continent and make it an "attraction" which London can no longer resist.

Most of Britain's overtures to the Continent since refusing to join the CSC in 1950 have indeed been in response to the pressure of events which London had tried without success to delay. Thus, the initial miscalculation that the Common Market could not be agreed on or would not work led to Britain's belated interventions in the EEC treaty negotiations, to the aborted proposals for a "Grand Design" and an all-European free trade area, and to, what many now would consider a "desperate act," the launching of the rival European Free Trade Association (EFTA). Only as the EEC has grown stronger in recent months has London shown an increasing interest in a partial customs union with it.

London's dilemma has thus deepened. Failure now to "cross the Channel which is Britain's Rubicon" might soon mean that closer political ties will be gradually added to the economic ties already isolating Britain from the Continent. However, a halfway overture designed to arrest this development would almost certainly be rejected again by the EEC as "diversionary," and even an offer to sign the EEC treaty might be rejected. Although top French officials have said they would pose no conditions to full UK membership in the EEC, Gaullist France has shown little disposition to share its European leadership with London. There are others, moreover, who would sincerely question the wisdom of adding at this time to the community's ideological problems the major problem of absorbing Britain.

Europe in the Atlantic Context

These intra-European problems have their inevitable

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repercussions on North Atlantic affairs. While it was always implicit in the American support of European integration that a stronger and better balanced American-European partnership would result, this concept did not envision a situation of intra-European division and potential rivalry.

In the commercial field, it has been difficult for many Europeans--not only those in EFTA--to appreciate the distinctions American policy has drawn between the EEC and EFTA: supporting the first as the basis for a permanent French-German conciliation and as the core of a unified Europe, while seeing no similar political advantages in the second. They find it difficult, moreover, to reconcile themselves to Washington's preferences for a "solution" of EFTA's commercial problems in the OECD and GATT rather than in an EFTA-EEC agreement discriminating against dollar exports--especially so since the US approach would seem to postulate as the alternative to a permanent Six-Seven division a series of individual accessions to the EEC.

Similar problems have also been emerging in the military sphere. Much of the hostility initially directed at De Gaulle's plan and still harbored by the Dutch has come from concern that it is his basic objective to create a Continental alliance subordinate to France rather than coordinate with NATO. His proposals for periodic meetings of EEC defense ministers have fed these fears, as have his strictures against integration of NATO forces, his national nuclear weapons program, and his long-cherished hope for "tripartite" considerations of world-wide problems.

Important--and possibly even valid--as this concern over French intentions may be,

however, some observers now consider it an aspect of the unresolved problem of Europe's future relationship to NATO. If and as the union of Europe proceeds, they contend, the present hierarchy of influence in NATO may have to change. Thus, for example, those who foresee a permanent division between London and the Continent suggest the concept of a NATO "resting on three main pillars"--the US, the UK, and the EEC.

While some feel this would set the stage for a development of "third force" tendencies on the Continent, others perceive potential advantages. Ambassador Butterworth, for example, has held that whether the Six becomes a "good or bad bloc" in NATO depends on the orientation of national policies in all fields, not simply on whether the Continental union includes arrangements for certain kinds of defense cooperation. Such arrangements, he believes, could offer possibilities of increased efficiency and savings, as well as constitute a "form of insurance against trivialities and nationalist adventures by our Continental allies."

Europe and Africa

It likewise is becoming more apparent that the increasing unity of Europe--as well as its divisions--is also having broad implications for the future of Western influence in Africa. From the vast French-, Belgian-, and Italian-administered territories associated in 1957 with the EEC have emerged some 17 independent states. Nearly all of them retain de facto association with the EEC as the result of a council decision in 1960 permitting the Africans to establish their own missions in Brussels and to continue to receive aid grants from the EEC's \$581,000,000 Overseas Development Fund.

The African association convention, however, expires in

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1962, and its replacement is rapidly becoming one of the critical issues in the EEC. In part at least because of the EEC Commission's success in establishing an identity distinct from the colonial powers, most of the newly independent African countries seem increasingly interested in renewing their EEC ties--provided their conditions are met. Among these conditions are likely to be the negotiation of individual association agreements with each of the new nations, the development of institutional ties based on EEC-African equality, and continued provision of substantial quantities of financial aid and, perhaps, also of preferential access to the European market.

Each of these conditions raises substantial difficulties. The Netherlands and influential elements in West Germany are opposed in principle, charging that limitation of the advantages of EEC association to roughly a third of Africa in effect "exports" the Six-Seven dispute to Africa. Were discrimination to be moderated by an exchange of EEC and Commonwealth preferences to all of Africa, they observe, Africa's competitors--e.g., in Latin America--would justly complain.

Equally difficult will be the financing and administration of a new development fund. The present fund involves heavy subsidization of French territories by the other EEC countries. They are not likely to agree to this again unless France offers to channel a much larger portion of its own aid through the EEC--a condition which Paris may feel will weaken its bilateral ties with the African states.

It is difficult to see how these conflicting interests will be resolved. Nevertheless, there is widespread agreement that the

future of European influence in Africa may increasingly depend on a successful community approach, and considerable encouragement is taken both from the apparent eagerness of the Africans to reach agreement and from the diplomatic way in which the EEC is proceeding. In any case, serious consideration of these problems will soon begin, since representative parliamentarians from some 16 African states are scheduled to hold a joint session with the European Parliamentary Assembly in Strasbourg from 19 to 24 June.

Perspectives

Even with due allowance for catastrophes such as have overtaken the European movement in the past and which could do so again, most observers nonetheless believe that European "union" enjoys a more promising vista than ever before. A spectacular recovery has been made since the defeat of the EDC in 1954, and some feel a point of economic irreversibility may already have been passed.

Nearly all agree that political institutions are still wanting. However, as one observer has noted, the scholastic argument over "sovereignty" may prove illusory when viewed in the perspective of functions. "Europe today, including Britain," he says, "presents the fascinating spectacle of a series of local societies in search of a government. It is a problem of pure politics. The institutional forms of the new Europe and the new Atlantic Community should represent the realities of functional interdependence in the realms of security, political action, and economic coordination, which have been so violently dramatized by the challenge we generally call 'the cold war.'"

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COMMUNIST CHINA'S ECONOMIC DIFFICULTIES

Communist China's economic difficulties, all of which came to a head in the latter part of 1960, have culminated in the greatest economic difficulties the regime has faced since 1949-50. A poor harvest for the second straight year has aggravated an already serious food problem and undermined plans for industrial expansion. Shortages and dislocations complicated by the departure of Soviet technicians have affected production in all important sectors of industry.

These problems stem to some extent from factors beyond the regime's control, such as bad weather. To a greater extent, however, they were brought on by Peiping's persistence in imprudent policies, both at home and abroad. Measures now being taken--such as cutbacks in industrial investment and concessions to the peasants--may alleviate, if not correct, some of the basic problems. Many developments still to be resolved, however, will determine when and at what pace China can resume its drive toward industrialization.

Agriculture

China's difficulties stem largely from the bad harvests of 1959 and 1960. Unusually bad weather was primarily responsible for these crop failures--both now admitted by Peiping--but official mismanagement of farm work and peasant apathy compounded the losses. It is estimated that grain output in 1960 was little if any larger than in 1957, when there were about 50,000,000 fewer Chinese to feed.

The seriousness of the agricultural situation has been reflected in a perceptible worsening of food shortages since the fall of 1960 and in the purchase of about 2,500,000 tons of Australian and Canadian grain for domestic consumption before the end of the 1960-61 food year. These extraordinary grain purchases have added to

China's already serious balance-of-payments problems and reduced its ability to import other items, notably industrial machinery.

Although these imports are minuscule compared with China's total food requirements or the probable shortages, they are significant when considered in terms of use in important urban centers or in food-deficit areas adjacent to coastal ports (e.g., Shantung and Liaoning).

The regime has retreated from the impractical commune form of rural organization and relaxed its efforts to manage complex farm tasks from Peiping. In late 1960, Peiping criticized farm organizations for setting unrealistic acreage and production targets, ignoring the views of peasants, and insisting on the use of unsound or unpopular farming practices. It has moved to correct these shortcomings by returning authority over farm work to local production units--brigades and teams--and urging local officials to listen to the opinions of experienced farmers.

Beyond this, however, Peiping's response to its farm problems has seemed indecisive. People's Daily said recently that what is needed are sensible solutions to such problems as how to delineate authority over field work, to assure peasant income commensurate with performance, and to foster local initiative. China's agricultural problems can be solved only gradually over a period of time, however, and the absence of dramatic new policies may actually have a beneficial effect in the countryside.

Weather and peasant attitudes will continue to be critical factors. China's peasants in 1960 were a disgruntled and unresponsive lot. They had been exhausted by the demands of the leap forward, herded into mess halls where rations were inadequate, and convinced that little reward would be forthcoming,

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irrespective of the effort expended. Peiping has moved to counteract this apathy by allowing them more time off for rest and to work on private plots, by ordering that they receive more of the income earned from agriculture, and by reviving rural free markets where peasants can sell their own produce.

Whether these steps will induce the peasants to work harder remains to be seen. There are signs that the peasants may be taking this new approach with a grain of salt. In the clearest admission yet that the peasants feel they have no stake in the system, Peiping said in late March that peasants must be made to feel they are "masters of the state" and must develop a spirit of "independent responsibility."

There are also signs the weather may be bad again this year--at least in North China. An unusually light snowfall last winter and little rain this spring have dimmed prospects for the early wheat crop in the north. Peiping has scheduled additional wheat imports at least through March 1962 and may expect a bad crop in areas where drought is continuing into the third year. It is too early to forecast prospects for all of the 1961 crops. For the present, growing conditions have not been good over large areas, and a note of uneasiness is discernible in the regime's statements about agriculture.

Industry

In 1960, the strains and imbalances generated by the rapid pace of industrial expansion during the preceding two years could no longer be contained. By July, official reluctance to discuss industry's performance bespoke a serious loss of momentum. Press reports and the few figures that were available indicated that raw material shortages, labor problems, and faulty coordination of production goals were affecting output in all important industries.

In trying to go too far too fast, Peiping had built machines without spare parts and factories served by inadequate transportation. It had overworked its labor force and abused its machinery. By mid-1960, an abnormally high number of machines were breaking down, inventories of unusable products were piling up, and workers were not responding to the regime's exhortations.

It was at this critical stage that the Soviet Union withdrew its technicians from China. While the action probably did not affect current industrial production--most Soviet technicians were involved with plants still under construction or just going into production--it added to Peiping's confusion over how to handle the disorder in industry and thereby greatly complicated remedial action.

Cutbacks in capital construction and the mass transfer of labor to farm work in the latter part of 1960 also worked against attempts to regain momentum in industry. The annual fall production drive was noticeably less intense in 1960 than in preceding years, apparently because of official preoccupation with agriculture and the inability of hungry workers to respond. Annual production goals were probably not met for most products. Peiping has claimed up-to-target production in most products of heavy industry, but the absence of supporting figures (with the exception of crude steel) strengthens the impression that these claims overstate the actual situation.

It is estimated that total investment in 1960 remained at about the 1959 level, and that industrial investment actually declined. For 1961, Peiping has announced that the scope of capital construction in heavy industry will be "appropriately reduced."

Peiping has moved to restore order in industry, and appears to have returned to

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sounder practices in economic planning and industrial management. It has reworked plans along more conservative lines, shifted emphasis from output to quality and balance, and moved to ease the pressure on both men and machines. These measures should do much to revitalize the industrial plant already established.

Sino-Soviet Economic Relations

The Soviet Union has been of enormous help in China's industrialization program, not only by supplying equipment and technical support but also by assuring a market for Chinese minerals, foodstuffs, and consumer goods in return for industrial machinery. This economic relationship could not be fundamentally altered without seriously interrupting China's rate of industrial growth.

In 1960, economic relations between Peiping and Moscow were strained to near the breaking point. Peiping's economic programs--the leap forward and the communes--had long been criticized by Moscow, and another irritant had apparently been the difficulties encountered by Soviet technicians because of Chinese insistence on unsound industrial practices during the frantic post-1958 production drive. When in the spring and summer of 1960 Peiping added an open challenge to Moscow's authority in the Communist bloc, the Soviet technical contingent in China was ordered home en masse.

This was a severe blow to Peiping's industrial construction program. The construction sites and partly finished plants deserted by Soviet technicians were key facilities for such heavy industries

as iron and steel, nonferrous metals, coal, petroleum, electric power, chemicals, and machine building. Half of a total of 291 industrial projects scheduled to receive Soviet equipment and technical aid through 1967 were still incomplete as of mid-1960, and at the time of the technicians' withdrawal, about 30 percent of China's total industrial investment was being spent on Soviet aid projects. Peiping has said that the action caused "serious damage" to Chinese industry and, by implication, that the basis for China's industrialization plans had been undermined.

A reduction in deliveries of Soviet equipment to China is corollary to the withdrawal of the Soviet personnel, since without technicians much of the equipment for the unfinished projects could not be installed or operated.

The withdrawal of the technicians appears now, however, to have been only one manifestation of a more general deterioration in Sino-Soviet economic relations during the latter part of 1960.

It was during this tense period in its dispute with Moscow that Peiping apparently became aware of the real seriousness of its economic situation. With industry faltering, the food situation alarming, and the planning apparatus bogged down, Peiping began to reassess its whole economic position in the late summer of 1960.

Peiping started its trade and economic negotiations with the Soviet Union in early February 1961; the signing of a Sino-Soviet trade protocol for 1961 was announced on 7 April.

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It calls for Soviet deliveries of heavy industrial machinery, petroleum products, and similar exports in return for Chinese supplies of raw materials and light industrial goods. In addition, Moscow has agreed to let China repay over a five-year period the trade deficit accrued through 1960.

The terms of the protocol, as announced in the press, indicate the Soviets were realistic in the terms granted but not as generous as they might have been, considering the seriousness of China's current difficulties. Moscow's postponement of the payments deficit amounted to accepting the inevitable, and will mean that China must reduce its imports from the USSR and maintain a substantial export surplus to pay off this debt. There was no mention of assistance from Moscow for Peiping's critical food problem.

Negotiations on long-term economic agreements are still under way in Moscow. The agreements reached so far are only a first step toward establishment of a new economic relationship. Peiping's negotiators are probably pressing for as much Soviet assistance as possible, but initial indications are that Moscow is driving a hard bargain.

A recent editorial in People's Daily, in acknowledging the importance of Soviet assistance to China, referred specifically to the 166 aid projects under the First Five-Year Plan but described the 125 projects agreed to in 1958 and 1959 mere-

ly as "a group of projects." This indicates there will be some elimination or postponement of previously scheduled Soviet aid programs. China's reduced export capabilities would in any case prevent completion of former plans on schedule, but the important and as yet unknown factor is Soviet technical support --if, when, or on what scale it will be resumed.

Outlook

On the whole, Peiping appears to have moved against some of its problems realistically. Industrial expansion is to be slowed and industrial investment reduced. Current agricultural and peasant policies are more suited to actual conditions. Claimed industrial expansion during the past three years was much more rapid than was achieved during the First Five-Year Plan and more rapid than originally envisaged for the Second Five-Year Plan, which runs through 1962. There is therefore considerable margin for lowering the official economic sights without abandoning the regime's original long-term goal of becoming a major industrial power.

A critical factor, however, is crop output. If liberalization of the farm system is effective in restoring peasant incentives, and if good weather prevails, the rewards of an adequate harvest in 1961 will be great. Conversely, if 1961 proves to be a third poor crop year in succession, the resulting crisis will make the present difficulties seem mild in comparison.

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